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LATIN-AMERICAN TRADE POSSIBILITIES

BY C. T. REVERE

Owing to hasty interpretation of the economic results of the war in Europe, two misconceptions have arisen regarding the effect on our oversea commerce. The first conclusion, rather short-lived, held to the view that the military embroilment of the Old World spelled commercial opportunity for America. This was quickly dissipated by the realization that reduced competition in neutral markets could not atone for the loss of our best customer.

The second fallacy—a fallacy, however, chiefly of mistaken attitude and prematurity of judgment—relates to Latin-American trade. In most discussions of the extension of our commerce the newly aroused manufacturer, the progressive editor, the patriotic layman, spoke in terms of Latin-American trade. It mattered not that Europe in normal years buys sixty per cent. of all we have to sell; that Latin America at best takes only twelve per cent.; that Canada, whom we hardly think of as a foreign customer, buys more than South America and Central America combined.

In a sense the popular imagination of the United States rediscovered Latin America. The exploits of Pizarro, Cortês, and Balboa were to be given industrial reproduction by the commercial *conquistadores* of the Northern Republic. The well-meant publicity, which concerned itself chiefly with the rewards, failed to point out the pitfalls, and some of the results of the hysteria have been unfortunate. Small independent manufacturers rushed investigators down to Brazil, Argentina, and other countries "to look over the situation," to be rewarded only with shivers over physical contact with the actual horrors of moratoria.

Apparently it was not generally appreciated that trade with

Latin America was already "established." Probably it is not a matter of general information that we now have in the cities of New York, Boston, Philadelphia, and New Orleans alone more than two hundred firms which do a prosperous business in the export and import trade with our sister Republics. Some of these business houses operate their own steamship lines, conduct their own banks, and maintain scores of branch offices in Central and South America.

It is only fair to state, however, that Latin-America also rediscovered us. The European war revived the brotherhood of the Western Hemisphere. Overtures for commercial interchange and appeals for capital quickly followed the outbreak of hostilities. Samples of articles of European manufacture were sent to this country, asking if they could be duplicated, oblivious of the fact that these same articles were in the stock of the great American mercantile houses operating in the same or adjacent territory.

Notwithstanding obstacles, disappointments, and counsels of caution, the tendency to put an apparently disproportionate value on Latin-American trade persists. In vain do experts point out the desirability of adhering to the beaten path in older fields instead of undertaking the hardships of pioneer work in less-developed territory.

Notwithstanding the disposition of trade authorities to criticize our choice, it is possible that the sixth sense of the American business instinct once more is asserting itself. The tendency, while perhaps based largely on intuition rather than knowledge, is evidently born of the belief that the time is coming when our raw materials and foodstuffs which now form such a large proportion of our exports to Europe will be needed at home. As a result we should vastly increase our imports of raw materials, and in exchange for these products we should have to ship out proportionately larger quantities of manufactured goods. The competitive markets of Europe afford meager opportunities and small profits for finished products, except in the case of patented articles or goods possessing some distinctively American feature.

With the shifting of our activities from the agricultural to the industrial field it requires no gift of prophecy to predict that the time is not far distant, as history is calculated, when the changing character of our commerce will call for a corresponding change in the character of our markets. We are large consumers of Brazil's coffee, rubber, and forest products. We

import meat, hides, and some grain from Argentina. We use fifty per cent. of the forty thousand tons of tin produced by Bolivia. We take sixty per cent. of the cocoa produced by Ecuador, although we obtain one-third of it *via* Germany. The nitrates of Chile are largely employed to repair the ravages of our soil inflicted through the carelessness of the American farmer.

It is fast becoming a tenet of the business gospel of this country that our exports of steel products, oil products, locomotives, farm implements, and typewriters must be followed by an increasing outgo of cotton goods and similar manufactures. With the resources of the Southern Continent energized by American capital and American business talents, it is believed that the market for our industrial output will be doubled or even trebled in a decade or so.

This, however, is largely the vision of American commerce. Caution is counseled for the present, not that we may neglect current opportunities, but that we may approach them with full recognition of difficulties and responsibilities. At present we are concerned not so much with dreams and prospects as with conditions that cannot be ignored. It is admitted that this country and the Republics of Latin America, by reason of existing industrial and commercial conditions, occupy positions that are essentially reciprocal. There is an opportunity for a very large and profitable trade if proper means are employed. The commercial prizes will come to us, however, not as the result of a "campaign," but by patient and persistent effort. Sacrifice and system will be important elements in such growth.

Just now it should be borne in mind that Latin America has been prostrated by the war in Europe. The purchasing power of those countries is represented largely by the value of exported products. A large share of the prosperity which has been enjoyed has resulted from benevolent financial despotism in the form of British and German loans. European investment in South America, while creating a market for European manufacturers, also has made possible increased purchases from the United States. European banking, which has handled Europe's trade in the Southern Hemisphere, also has furnished the chief provisions for our own commerce with those countries.

As a result of the war Latin America has been confronted with the curtailment of markets for exportable products, due partly to decreased purchasing power or the inaccessibility of belligerent nations. There has been a sharp diminution of purchasing power through the cessation of European investment,

thus suspending enormous industrial and agricultural enterprises. In addition to this there has been paralysis of commercial machinery, owing to the dislocation of London exchange, which is the universal currency for the oversea trade of Latin America. Moratoria have been declared, making impracticable or highly expensive either payments or collections in London bills of exchange. Exports of copper, tin, nitrates, coffee, and other products have been reduced because of the loss of normal European markets. The financial upset has extended to American exporters, as it has delayed the collection of bills on account of the extension of the moratoria.

This, however, represents only immediate conditions. In order to gain an idea of the commercial situation in South America proper, attention is called to the following table, giving imports and exports of South American countries from and to England, Germany, and the United States for the years specified. This report was compiled by the Bureau of Foreign and Domestic Commerce of the Department of Commerce from the official reports of the respective countries:

		England		Germany		United States	
Country	Year	Imports	Exports	Imports	Exports	Imports	Exports
Argentina.	1913	$126,305,556	$116,154,937	$68,815,721	$55,888,788	$59,861,703	$22,096.385
Brazil.....	1912	77,509,079	43,006,473	52,945,352	51,856,965	48,043,322	141,720,216
Chile.....	1912	38,599,282	55,340,706	33,189,070	28,321,776	16,806,341	24,526,811
Peru......	1913	7,779,616	16,561,235	5,138,902	2,970,857	8,541,934	14,761,355
Ecuador..	1911	2,835,854	986,148	2,385,758	2,139,552	2,591,629	3,190,069
Uruguay..	1912	[1] 12,575,508	6,508,127	[1] 7,849,094	7,860,272	[1] 5,638,402	2,655,371
Paraguay..	1912	[2] 1,295,248	[3] 799	[2] 1,500,958	[2] 843,459	[2] 304,888	[2] 590
Colombia..	1912	[2] 7,838,878	[2] 4,376,182	[2] 4,201,125	[2] 1,854,211	[2] 7,612,037	[2] 15,832,882
Venezuela.	1913	3,994,733	767,031	2,586,986	5,563,768	6,944,136	8,470,563
Bolivia....	1912	3,528,042	26,044,974	6,423,802	4,357,101	1,787,321	152,583

[1] Figures are for 1911 and are taken from the *Almanach de Gotha*.
[2] Figures taken from U. S. Daily Consular and Trade Reports.
[3] Figures are for 1911 and are taken from Pan-American Union publication.

These figures show that exports from Great Britain and Germany are considerably in excess of imports, while the balance of trade runs strongly against the United States. The balance in favor of Europe, however, may be explained by the investment policies of Great Britain and Germany and the fact that proceeds of loans to the less-developed countries are frequently remitted, not in cash, but in exports of industrial equipment or other manufactures. Our own trade with Latin America—this applies to the South rather than the Central American States—is concentrated. It is estimated that seventy-five per cent. of our principal exports to South America represents the products of large organizations. To Argentina we send chiefly agricultural machinery and allied products, steel products, oil products, and printing-paper. Our shipments to Brazil, Chile,

and Peru consist largely of steel and oil products, locomotives, and electrical machinery. Along the lines of general manufactures, such as textiles, shoes, hosiery, wearing apparel, and miscellaneous goods, we have not played an important part, because of our failure to meet British and German competition.

Furthermore, our failure to meet this competition has not been so much a matter of price as a failure to adjust ourselves to existing social, commercial, and financial requirements. We have fallen short largely in respect to attitude. Our disinclination to grant credits of the customary duration might be excused, but our shortcomings in respect to social usages have furnished the basis for international resentment, which has been ingeniously nourished by our competitors.

Notwithstanding our national fondness for innovation, the soundest opinion favors the view that any plans for the extension of our commerce with Latin America, and particularly South-American countries, should follow the lines of seasoned business experience. British trade is strongly intrenched by nearly a century of painstaking effort. The earliest definite steps to establish close relations were taken during the Napoleonic wars when the great Corsican tried to lay his continental embargo on English importations, thus diverting British commerce into new fields. With the revolutions of the Spanish colonies in the first quarter of the nineteenth century additional impetus was given to these new affiliations. These have been carefully fostered by that trade skill in which, until the advent of aggressive German competition, Great Britain has known no peer.

Starting with the formation of the London and River Plate Bank in 1862, came the establishment of direct banking relations until eight great financial organizations with a subscribed capital of $106,000,000, with branches or agencies in every important center of the Continent, cement the union between British and South American trade and testify to the pre-eminence of the pound sterling as the measure of value. Through the medium of these banks London has controlled the exchange-market and levied commissions on the trade of all nations. Millions of bags of coffee imported into the United States annually pay a toll of five to six cents per bag in commissions on drafts. Collection fees and interest on loans have added further to the profits of British shareholders.

The loss to American commerce, however, does not lie so much in the toll paid to British banks in exchange transactions

as in the diversion of trade to competitive channels, with the logical result that our imports, instead of laying a basis for purchases from this country, tend merely to facilitate the payment of old European obligations and stimulate increased trade with Great Britain. With the present banking connections the more products we buy from Latin America the more goods will Latin America buy from England and the greater will be our adverse trade balance with Latin America. The following table of trade distribution giving the figures for 1913 and 1914 supplies an excellent illustration of this point.

	Exports	
	1913	1914
Central America, West-Indian Republics and Mexico	$177,627,892	$157,530,244
South America	146,147,993	124,539,909
	$323,775,885	$282,070,153

	Imports	
	1913	1914
Central America, West-Indian Republics and Mexico	$224,685,344	$246,405,592
South America	217,734,629	222,677,075
	$442,419,973	$469,082,667

Trade Balance Adverse to United States

	1913	1914
In trade with Central America, West-Indian Republics and Mexico	$47,057,452	$88,875,348
In trade with South America	71,586,636	98,137,166
In trade with all Latin America	$118,644,088	$187,012,514

The above figures do not provide a coincidence or a paradox. They merely show the inevitable workings of a system which leaves the mechanism of credit and banking in the hands of competitors.

In one of the bulletins issued by the Department of Commerce appears the description of a striking instance of the burden imposed by our reliance on foreign steamship connections and banking facilities. About three ships a month are required to carry to New Orleans the two million bags of coffee

consigned to coffee-roasters in the southern and western parts of the United States. If we had a well-balanced trade, these ships would be available for return cargoes of such products as this country sells to Brazil. Nothing of the sort happens. After discharging their coffee these ships are loaded with cotton and other raw material needed by European manufacturers. Upon arrival at their destination they replace their cargoes of American raw materials with manufactures which are sent away to Brazil.

The financial transactions follow the triangular route taken by the ships. Owing to the lack of American banking facilities in South America, the coffee importer buys a letter of credit on London with which to satisfy the ninety-day sight draft drawn on him by the Brazilian coffee exporter. In this way he transfers from New Orleans to London the obligation created by the purchase of the coffee. If this obligation could be liquidated through American banking channels direct with Brazil, it would exercise a certain "pulling" power in behalf of return sales to South America, and would tend to the reduction of the adverse trade balance.

London, of course, does not ship gold to Brazil. It discharges the obligation in British manufactures or credits it against the returns on investments in Brazil. In any event the process succeeds in alienating from the United States the market outlet that should be created by our heavy purchases. Rio—New Orleans—London, or if you will, Rio—New York—London! In either case the triangle operates effectively to siphon gold from this country, and by this method the more we buy the more we add to the selling power of our competitors.

No illustration could emphasize more strongly the necessity for direct banking relations with Latin America or give more forcible indorsement to the step taken by the National City Bank of New York with this purpose in view.

In addition to the establishment of direct banking relations with the advantage furnished by superior credit information a tremendous leverage is exerted by investments. The *South American Journal*, published in London, is authority for the statement that British investments in Latin America at the end of 1913 reached a total of $5,008,673,000. The estimated annual return of $250,000,000 tells only the minor part of the story. This vast sum has entailed the reaping of stupendous profits in the sale of materials according to agreements stipulated at the various times these loans or investments were made.

In addition to the investment return, British industry and commerce have been so strongly fortified that they can afford to view complacently any fortuitous effort to dislodge them.

The German invasion of the Latin-American trade field began about 1870. The methods were characteristic of Teutonic patience and vigor, and were ideally suited to competition with an established rival. Direct banking relations were established, not as in the case of Great Britain, to meet the demands of trade, but as a stimulus to trade. At the outset German commerce was dependent on the banking facilities of other nations, particularly those of England. German economists at once saw the fallacy of this position, and in spite of the debtor position of their country and notwithstanding the fact that their commerce was insignificant in comparison with the trade which the United States now possesses, no time was lost in correcting the situation.

As a result of this movement four large German banks exercise an influence in Latin America second only to those of England. In proportion to their number their influence is even more pronounced, owing to the aggressive tactics of their branch establishments. They have been noted for extraordinary liberality in the extension of credits, and in fact their policy has been criticized as being responsible for financial reactions in some of the republics where they have operated aggressively.

While their investments do not approach the impressive total presented by Great Britain, the Germans have used this asset efficiently and have been even more active than their English competitors in identifying themselves with the commercial life of the communities with which they have cast their lot. They have been alert in internal development, and their extensive work in the hydro-electric field has been the means of introducing a vast amount of electrical equipment into South America.

The emphasis herein laid on British and German trade methods in Latin America has a twofold purpose — first, to point out striking examples of successful precedents; second, to give some hint of the responsibilities involved by the extension of our operations in that territory. As a result of the war Latin America is facing urgent problems of a financial character. The Southern Republics are confronted with the necessity of marketing their products notwithstanding the shrinkage of the world's purchasing power. Funds must be obtained for the conduct of enterprises normally dependent on European financing.

With an adverse trade balance of approximately $187,000,000 it would seem that the United States should be in a position to offer assistance. With the present credit machinery this is impossible. The operation of a gold pool to reduce exchange rates would result finally in the diversion of our selling power to Great Britain and a restoration of the old order.

Cohesive action by the firms engaged in the export and import trade furnishes the most practical basis for a solution of the existing problems. With the co-operation of powerful banking interests it might be possible to liquidate obligations through the matching of credits. Such unity of action, while suggested as a means of temporary relief, would lay the groundwork for permanently improved methods. Reciprocal balances and credit machinery are the chief essentials of exchange relations. This machinery has not been available prior to the passage of the Federal Reserve Act permitting American banks to maintain branches abroad, and, with the exception of certain assistance afforded by the National City Bank, has not been a factor in the existing crisis.

The most feasible suggestions for meeting the present emergency and furnishing permanent relief are contained in the recommendations by the Latin-American Committee of the National Foreign Trade Council. These were made in response to a request made by a recent conference in Washington between the representatives of Central and South American countries and some of the leading industrial and commercial organizations of the United States. These recommendations were as follows:

1. *The establishment of a dollar exchange.*
   (*a*) By the ultimate creation of a discount market.
   (*b*) Pending the establishment of a discount market, by the extension of adequate accommodation by banking institutions, and the establishment of reciprocal balances in the United States and in Latin America for financing Latin-American trade.

2. *Perfection of our selling machinery.*
   (*a*) By furnishing additional support to commission houses already familiar with Latin-American business.
   (*b*) By forming associations of merchants and manufacturers to be jointly represented in Latin-America.
   (*c*) By obtaining information as to the possibilities of developing retail stores in large Latin-American cities.

With the establishment of direct banking relations and credit machinery the extension of our investments in Latin America should be a logical development. Intimate knowledge of individual enterprises is no more essential than in the case of the British investor. At any rate, the investigation by American banks offering such securities would be a determining influence, just as it is at present in the case of domestic flotations. The time perhaps is not far distant when the line will not be sharply drawn between foreign and domestic securities, for foreign investments may be regarded as domestic investments if they exercise a stimulating effect upon this country's commercial and industrial welfare.

The philosophy of oversea commerce is essentially one with domestic commerce. If an American community is prosperous, business is good. The same principle applies to Latin America. The volume of purchases depends on buying power, and in the Republics which lie to the south their buying power is dependent largely upon the development and utilization of their almost boundless resources.

Hitherto European capital and European organization have measured and directed the progress of Latin America. These funds and this energy have been withdrawn, perhaps for years to come. If the manufacturers, the merchants, and the investors of the United States are able and willing to meet the demands of the present crisis, the experience gained in this emergency may lay the basis for permanent and vastly increased trade relations. The opportunities are well-nigh infinite, but the responsibilities are sobering.

C. T. REVERE.